

**RAYMOND LTD** | Diversified*Operational Efficiencies & Cost Rationalization Visible***LKP**

Raymond reported a sequential growth in revenues led by Engineering and Real Estate business, however, Textile business remained subdued. In the textile business, the company witnessed sequential improvement in demand across the country since September and expects the momentum to continue going forward. Raymond registered a yoy revenue de-growth of c. 64% with EBIDTA loss of around ₹110 crores. The company has successfully cushioned the fall in profitability through ongoing cost optimization measures, leading to cost saving of ₹278 crores i.e. 48% cost reduction yoy. Raymond has reopened c.99% of its stores across India and is experiencing demand recovery in the range of c.50% to 70% amongst the channels. Garmenting and Engineering business has outperformed other segments with marginal revenue de-growth yoy while margins have expanded in the range of c.140 bps to 450 bps on yoy basis. Real Estate business has also picked up pace with increase in physical visits and bookings along with the launch of 7th tower in the month of August 2020. We expect the company's operation to further improve in the coming quarters with recovery in consumer sentiment led by festive and wedding season. We maintain our Buy recommendation with a target price of ₹485.

**Steady Recovery in Branded Business**

Raymond's textile business is recovering post the lockdown with reopening of almost 99% of the stores. The branded textile business posted a robust sequential revenue growth; however, the revenue is still lower than previous year owing to lower demand. Branded textile performance was mainly impacted due to sporadic lockdowns across some regions in the month of July and August. Branded Textile revenue declined c.73% yoy with EBIDTA loss of ₹6 crores. Consumer sentiment in the month of October has improved on account of festive shopping and wedding season. Branded Apparels business is still facing the brunt of lockdown in the first half of the quarter. Raymond's secondary sales has picked up in the second half of the quarter with reopening of malls and stores across major towns and cities. Raymond is currently focusing on managing its liquidity and working capital by clearing its existing inventory through online channels and discounting. Branded Apparel business revenue declined c.87% yoy with an EBIDTA loss of ₹74 crores. Branded business is expected to perform much better in the second half of FY21 with revival in the economy and consumer demand.

**Strong Performance in the Garmenting Business**

Garmenting business was a standout among the textile business with good traction from US and Europe. The company saw improvement in the bulk and institutional MTM business in key markets along with contribution from the sale of PPE kits. Garmenting business margins expanded by 425 bps yoy to 10.1% from 5.3% with better product mix and cost optimization measures. High value cotton business recovered sequentially but is still way below normal levels owing to weak market demand and sporadic lockdowns across regions.

**Engineering Business witnessed margin expansion**

Engineering business of the company recovered to almost at previous levels owing to uptick in the domestic markets along with increasing traction from exports markets such as LATAM and the US. Tools & Hardware business revenue declined by only c.3% while the Auto component business revenue declined by c.6.7% yoy. Engineering business saw a margin expansion of 139/440 bps in the T&H/Auto components mainly led by cost rationalization exercise and operational leverage.

Key Financials	2018	2019	2020	2021E	2022E	2023E
Total Sales (₹ Crore)	5,906	6,582	6,482	4,422	6,025	7,197
EBITDA Margins (%)	7.2%	8.8%	8.0%	2.0%	9.5%	10.0%
PAT Margins (%)	2.4%	2.7%	3.1%	-9.6%	0.6%	1.8%
EPS (₹)	21.9	27.4	31.2	-	4.5	18.4
P/E (x)	38.9	28.5	7.1	-	63.6	15.4
P/BV (x)	3.0	2.5	0.6	1.0	1.0	0.9
EV/EBITDA (x)	18.2	12.7	6.9	44.2	7.2	5.8
ROE (%)	7.8%	8.9%	8.5%	-	1.8%	6.3%
ROCE (%)	9.7%	11.7%	8.1%	-	6.5%	8.9%

Rating	Buy
Current Market Price (₹)	281
12 M Price Target (₹)	485
Potential upside (%)	73

**Stock Data**

FV (₹) :	10
Market Cap Full (₹ bn) :	19
Market Cap Free Float (₹ bn) :	10
52-Week High / Low (₹) :	829 / 210
1 Year Avg. Dly Traded Volume (in lakh) :	8
BSE Code / NSE Symbol :	500330 / RAYMOND
Reuters Ticker / Bloomberg Code :	RYMD.BO / RW IN

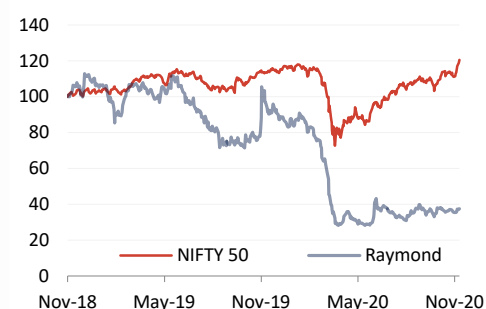
**Shareholding Pattern**

(%)	Sep-20	Jun-20	Mar-20	Dec-19
Promoter	48.27	48.27	46.78	46.78
FPIs	6.37	7.74	10.85	10.98
MFs	2.95	5.85	8.69	9.05
FI's / Insurance	1.43	1.79	1.85	1.84
Others	40.98	36.35	31.83	31.35

**Price Performance (%)**

(%)	1M	3M	6M	1YR
Raymond	1.2%	4%	25%	-62%
NSE Nifty	7%	13%	38%	7%

\* To date / current date : 11-November-2020

**Raymond vs Nifty 50**

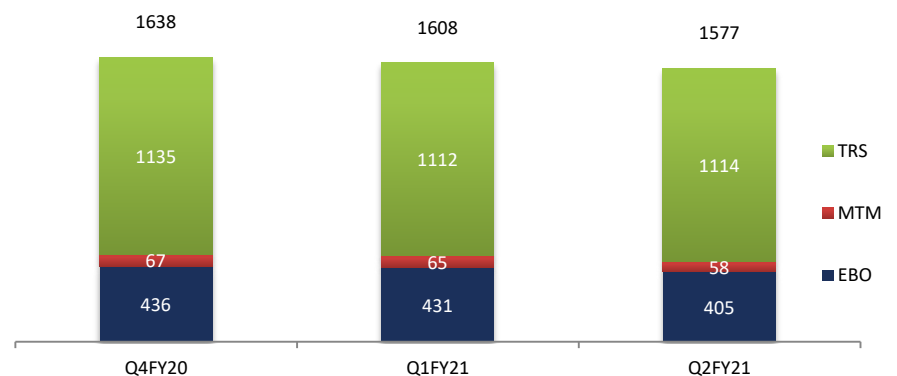
### Improvement in working capital management

Raymond has been able to maintain its liquidity and working capital levels in this quarter with its new cash management model of 'Collect, Sale and Produce'. The company's net working capital came down by almost ₹500 crs as compared to March 2020 and by ₹191 crores since June 2020. Also, the company has been able to generate positive cashflows this quarter with CFO of ₹138 crores and FCFE of ₹32 crores. Raymond has also efficiently managed its debt profile with stable net debt at around ₹1,817 crores and net debt/equity ratio at 0.9x. The company since lockdown has increased its focus on optimizing costs across verticals. The overall operating expenses in this quarter have been lower by almost 48% yoy with a cost saving of around ₹278 crores. In the half year the company saved around ₹500 crores as compared to last year with rationalization in employee cost, A&SP, rentals and other fixed expenses.

### Other Key Highlights

- Raymond launched its 7th tower in the month of August 2020 and have booked around 49 units in this quarter taking the total booking to 1,012 units as on September 2020. The company has been able to retain the real estate customers by offering them bank subventions and provision to convert their 2 bhk flats to 1 bhk. Physical visits at the sales office has increased to 60-70% of the pre-covid levels.
- Raymond has rationalized its stores across the country by shutting down inefficient stores to make its retail portfolio healthy. The current total store count is around 1,577 divided into 405 EBOs, 58 MTM and 1,114 TRS.

### Exclusive Retail Network & Current Status



Source: Company, LKP Research

### Outlook & Valuation

Raymond posted a weak quarter for its textile business (except the Garmenting business) owing to lockdowns in the month of July and August. The company is witnessing an uptick in the overall demand scenario from September onwards with reopening of c.99% of its stores and the onset of festive and wedding seasons. The management has indicated a better second half with overall business growth with added benefit of cost savings. The Engineering business has been strong this quarter with margin expansion and strong demand from domestic and export markets. Also, the company has been able to maintain its guidance on liquidity, working capital and cost savings which is visible through their performance in this quarter. We expect the company to maintain its overall financial health added by improved operational performance. We maintain our Buy recommendation with a target of ₹485.

## Quarterly Financial Snapshot

All fig in ₹ crores	Q2FY21	Q1FY21	% qoq	Q2FY20	%yoy
<b>Revenue from Operations</b>	<b>674.2</b>	<b>163.2</b>	<b>313.2%</b>	<b>1,883.2</b>	<b>-64.2%</b>
Cost of Goods Sold	386.6	78.3	393.9%	879.1	-56.0%
Employee Cost	154.5	170.8	-9.6%	264.4	-41.6%
Other Expenses	243.1	139.1	74.7%	532.6	-54.4%
<b>EBIDTA</b>	<b>(109.9)</b>	<b>(225.1)</b>	<b>-51.1%</b>	<b>207.0</b>	<b>-153.1%</b>
EBIDTA Margin %	-16.3%	-137.9%	-	11.0%	-
Other Income	58.1	58.4	-0.5%	29.6	96.4%
Depreciation	83.0	84.1	-1.3%	86.0	-3.4%
Share of loss of joint ventures (net of tax)	(6.7)	(26.7)	-74.8%	3.8	-276.4%
<b>EBIT</b>	<b>(141.6)</b>	<b>(277.4)</b>	<b>-49.0%</b>	<b>154.5</b>	<b>-191.6%</b>
EBIT Margin %	-21.0%	-170.0%	-	8.2%	-
Interest	75.2	71.6	5.0%	79.0	-4.8%
Exceptional Items & Extraordinary Items	-	-	-	-	-
<b>EBT</b>	<b>(216.8)</b>	<b>(349.0)</b>	<b>-37.9%</b>	<b>75.5</b>	<b>-387.0%</b>
Tax	(80.2)	(101.4)	-20.9%	(10.7)	647.8%
<b>PAT</b>	<b>(136.6)</b>	<b>(247.6)</b>	<b>-44.8%</b>	<b>86.2</b>	<b>-1034.8%</b>
PAT Margin %	-20.3%	-151.8%	-	4.6%	-

## Quarterly Segmental Snapshot

All fig in ₹ crores	Q2FY21	Q1FY21	% qoq	Q2FY20	%yoy
<b>Branded Textile</b>					
Revenue	229.9	16.6	1286.6%	869.0	-73.5%
EBIT	(33.8)	(124.2)	-72.8%	108.8	-131.0%
EBIT Margin %	-14.7%	-748.9%	-	12.5%	-
<b>High Value Cotton Shirting</b>					
Revenue	33.1	5.5	499.5%	161.0	-79.4%
EBIT	(20.8)	(27.3)	-23.7%	17.0	-222.7%
EBIT Margin %	-62.9%	-493.7%	-	10.5%	-
<b>Branded Apparel</b>					
Revenue	70.8	-	-	529.0	-86.6%
EBIT	(107.0)	(70.3)	52.3%	14.0	-866.6%
EBIT Margin %	-151.1%	#DIV/0!	-	2.6%	-
<b>Garmenting</b>					
Revenue	187.2	99.7	87.7%	233.0	-19.7%
EBIT	13.0	(12.8)	-201.0%	6.2	108.2%
EBIT Margin %	6.9%	-12.9%	1980 Bps	2.7%	425 Bps
<b>Tools and Hardware</b>					
Revenue	100.0	20.2	396.2%	103.0	-2.9%
EBIT	12.6	(16.6)	-175.6%	11.5	9.1%
EBIT Margin %	12.6%	-82.5%	9505 Bps	11.2%	139 Bps
<b>Auto Components</b>					
Revenue	48.5	21.0	130.8%	52.0	-6.7%
EBIT	7.4	(3.6)	-303.9%	5.6	31.4%
EBIT Margin %	15.2%	-17.2%	3233 Bps	10.8%	440 Bps
<b>Real Estate</b>					
Revenue	19.0	4.7	301.9%	35.0	-45.7%
EBIT	2.4	(2.2)	-208.7%	5.8	-59.3%
EBIT Margin %	12.5%	-46.1%	5856 Bps	16.7%	-419 Bps

Source: Company, LKP Research

## Income Statement

Particulars (₹ in Cr)	2018	2019	2020	2021E	2022E	2023E
<b>Total Revenue From Operations (Net)</b>	<b>5,906</b>	<b>6,582</b>	<b>6,482</b>	<b>4,422</b>	<b>6,025</b>	<b>7,197</b>
<i>Revenue Growth %</i>		11.4%	-1.5%	-31.8%	36.2%	19.5%
<b>Expenses</b>						
Cost of Material Consumed (incl. changes in inventory)	923	977	985	774	934	1,080
Purchases of stock-in-trade	1,583	1,829	1,815	1,238	1,687	2,015
Employee Benefit Expenses	835	935	996	730	843	1,008
Other Expenses	2,137	2,264	2,170	1,592	1,988	2,375
<b>Total Expenses</b>	<b>5,479</b>	<b>6,006</b>	<b>5,967</b>	<b>4,333</b>	<b>5,452</b>	<b>6,478</b>
<b>EBITDA</b>	<b>427.9</b>	<b>576.8</b>	<b>515.8</b>	<b>88.4</b>	<b>572.2</b>	<b>719.6</b>
<i>EBITDA Margin %</i>	7.2%	8.8%	8.0%	2.0%	9.5%	10.0%
Other Income	118	125	96	90	87	104
Share of Profit / (Loss) of joint ventures	-5.0	-8.0	151.6	-21.1	15.4	22.0
Depreciation and Amortization Expenses	170	196	340	332	351	374
<b>EBIT</b>	<b>371</b>	<b>498</b>	<b>424</b>	<b>-175</b>	<b>323</b>	<b>471</b>
<i>EBIT Margin %</i>	6.3%	7.6%	6.5%	-4.0%	5.4%	6.5%
Finance Cost	184	233	303	249	277	300
<b>Profit / (Loss) before exceptional items and tax</b>	<b>187</b>	<b>265</b>	<b>121</b>	<b>-425</b>	<b>46</b>	<b>171</b>
Exceptional Items	21.0	-4.7	38.1	-	-	-
<b>PBT</b>	<b>208</b>	<b>260</b>	<b>159</b>	<b>-425</b>	<b>46</b>	<b>171</b>
<i>PBT Margin %</i>	3.5%	4.0%	2.5%	-9.6%	0.8%	2.4%
<b>Tax Expense</b>	<b>67</b>	<b>86</b>	<b>-43</b>	<b>-</b>	<b>12</b>	<b>43</b>
Current tax expense for current year	57	74	35	-	12	43
Deferred tax	9.8	11.8	-78.3	-	-	-
Other Tax Adjustments	-	-	-	-	-	-
<b>Profit / (Loss) for the year</b>	<b>142</b>	<b>175</b>	<b>202</b>	<b>-425</b>	<b>34</b>	<b>128</b>
<i>Pat Margins %</i>	2.4%	2.7%	3.1%	-9.6%	0.6%	1.8%
Non Controlling Interest	6.9	6.8	5.6	-0.2	4.7	5.5
<b>Profit/ (Loss) attributed to Owners</b>	<b>135</b>	<b>168</b>	<b>196</b>	<b>-424</b>	<b>30</b>	<b>122</b>

Source: Company, LKP Research

## Financial Ratios

Particulars	2018	2019	2020	2021E	2022E	2023E
<b>Per Share Data (INR)</b>						
EPS	21.9	27.4	31.2	-	4.5	18.4
Cash EPS	50.8	60.5	83.7	-	57.9	75.4
BV/Share	295	318	367	290	290	305
DPS	1.25	3.00	3.00	3.00	3.00	3.00
Payout (%)	6%	11%	10%	-5%	67%	16%

## Growth Indicators (%)

Sales Growth (%)	10%	11%	-2%	-32%	36%	19%
EBIDTA Growth (%)	40%	35%	-11%	-83%	548%	26%
EBIT Growth (%)	55%	34%	-15%	-141%	285%	46%
EBT Growth (%)	301%	25%	-39%	-367%	111%	-271%
PAT Growth (%)	372%	23%	15%	-310%	108%	-271%

## Valuation Ratios (x)

P/E	38.9	28.5	7.1	-	63.6	15.4
Cash P/E	17.7	13.4	2.7	-	4.9	3.8
EV/Sales	1.3	1.1	0.5	0.9	0.7	0.6
EV/EBITDA	18.2	12.7	6.9	-	7.2	5.8
P/B	3.0	2.5	0.6	1.0	1.0	0.9
Mcap/Sales	0.9	0.8	0.2	0.4	0.3	0.3

## Working Capital Ratios (x)

Fixed Asset Turnover Ratio	3.0	3.2	2.6	1.9	2.7	3.5
Asset Turnover Ratio	1.0	1.0	0.8	0.7	0.8	0.9
Inventory Days	100	105	124	124	124	124
Trade Receivables Days	67	70	65	70	70	70
Trade Payables Days	70	75	79	79	79	79

## Profitability Ratios (%)

EBITDA Margin	7.2%	8.8%	8.0%	2.0%	9.5%	10.0%
EBIT Margin	6.3%	7.6%	6.5%	-4.0%	5.4%	6.5%
EBT Margin	3.5%	4.0%	2.5%	-9.6%	0.8%	2.4%
PAT Margin	2.4%	2.7%	3.1%	-9.6%	0.6%	1.8%

## Return Ratios (%)

ROE	7.8%	8.9%	8.5%	-	1.8%	6.3%
ROCE	9.7%	11.7%	8.1%	-	6.5%	8.9%

## Liquidity &amp; Leverage Ratios (x)

Current Ratio	1.00	0.97	1.03	0.89	0.94	0.99
Interest Coverage Ratio	2.02	2.14	1.40	-0.70	1.17	1.57
Net Debt/Equity Ratio	1.05	1.06	0.80	0.94	1.05	1.02
Net Debt/EBIDTA Ratio	4.43	3.58	3.66	20.43	3.56	2.88
Financial Leverage	3.37	3.41	3.26	3.22	3.71	3.84

Source: Company, LKP Research

## Balance Sheet

Particulars (₹ in Cr)	2018	2019	2020	2021E	2022E	2023E
<b>Equities And Liabilities</b>						
<b>Shareholders' funds</b>						
Share capital	61	61	65	65	65	65
Reserves and surplus	1,751	1,892	2,311	1,864	1,869	1,967
	<b>1,812</b>	<b>1,954</b>	<b>2,376</b>	<b>1,928</b>	<b>1,934</b>	<b>2,032</b>
Non-Controlling Interest	76	83	88	88	93	98
	<b>1,888</b>	<b>2,037</b>	<b>2,464</b>	<b>2,017</b>	<b>2,027</b>	<b>2,131</b>
<b>Non-current liabilities</b>						
Long term Borrowings	664	411	387	258	154	134
Other Financial Liabilities	45	3	547	373	508	607
Deffered Tax Liabilities (Net)	19	24	25	25	25	25
Other Longterm Liabilities	48	56	49	34	46	55
	<b>776</b>	<b>494</b>	<b>1,008</b>	<b>690</b>	<b>733</b>	<b>821</b>
<b>Current liabilities</b>						
Short-term borrowings	1,150	1,732	1,786	1,846	2,246	2,346
Trade payables	1,126	1,352	1,406	959	1,306	1,561
Other Financial Liabilities	961	828	768	477	579	587
Short term Provisions	59	69	71	49	66	79
Current Tax Liabilities (Net)	-	1	2	2	2	2
Other current liabilities	148	153	242	165	225	269
	<b>3,444</b>	<b>4,134</b>	<b>4,275</b>	<b>3,498</b>	<b>4,425</b>	<b>4,844</b>
Liabilities associated with assets held for sale	-	-	-	-	-	-
<b>Total</b>	<b>6,109</b>	<b>6,664</b>	<b>7,747</b>	<b>6,204</b>	<b>7,184</b>	<b>7,795</b>
<b>ASSETS</b>						
<b>Non-current assets</b>						
<b>Fixed assets</b>						
Tangible assets	1,677	1,921	2,421	2,252	2,154	2,032
Capital work-in-progress	270	113	35	35	35	35
Goodwill	12	12	12	12	12	12
Other Intangible assets	52.0	2.6	8.8	5.7	2.5	-
Intangible assets under development	1.1	1.1	4.8	4.8	4.8	4.8
Investments accounted for using equity method	125	128	353	332	347	369
<b>Financial Assets:</b>						
Non-current investments	137	135	32	32	32	32
Long-term loans and advances	76	-	8	8	8	8
Other financial assets	73	83	133	91	124	148
Deffered Tax Assets (Net)	72	68	180	180	180	180
Non-current tax assets (net)	74	71	75	75	75	75
Other non-current assets	107	111	79	54	73	88
	<b>2,677</b>	<b>2,647</b>	<b>3,340</b>	<b>3,080</b>	<b>3,046</b>	<b>2,982</b>
<b>Current assets</b>						
Inventories	1,611	1,902	2,201	1,501	2,046	2,444
Investment	373	276	213	213	213	213
<b>Financial Assets:</b>						
Trade receivables	1,086	1,260	1,159	848	1,155	1,380
Cash and Bank balances	45	21	133	20	60	22
Other Balances with Banks	41	105	194	194	194	194
Short-term loans and advances	5	85	11	11	11	11
Other financial assets	29	41	28	19	26	31
Other current assets	242	328	466	318	433	517
	<b>3,432</b>	<b>4,017</b>	<b>4,406</b>	<b>3,124</b>	<b>4,138</b>	<b>4,812</b>
Asset classified as held for sale	0.1	1.1	1.1	-	-	-
<b>Total</b>	<b>6,109</b>	<b>6,664</b>	<b>7,747</b>	<b>6,204</b>	<b>7,184</b>	<b>7,795</b>

## Cash Flows

Particulars (₹ in Cr)	2018	2019	2020	2021E	2022E	2023E
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>						
Profit / (Loss) before Tax	187	265	121	(425)	46	171
<b>Adjustments For</b>						
Depreciation and Amortization	170	196	340	332	351	374
Finance Income	(68)	(80)	(61)	(18)	(21)	(22)
Finance Costs	184	233	303	249	277	300
Share of (Profit)/Loss of JV	5	8	(152)	21	(15)	(22)
Other operating activities	(25)	(61)	35			
Working capital changes	9	(235)	(173)	337	(327)	(240)
Exceptional Items (Net)	(29)	(5)	(0)			
Less: Income tax paid	(39)	(71)	(40)	-	(12)	(43)
<b>NET CASH GENERATED BY OPERATING ACTIVITIES (A)</b>	<b>395</b>	<b>251</b>	<b>373</b>	<b>497</b>	<b>300</b>	<b>518</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Capital Expenditure	(496)	(241)	(193)	(159)	(250)	(250)
Changes in Investment	20	39	13			
Other investing activities	67	80	60	18	21	22
<b>NET CASH GENERATED / (USED) IN INVESTING ACTIVITIES (B)</b>	<b>(408)</b>	<b>(123)</b>	<b>(119)</b>	<b>(141)</b>	<b>(229)</b>	<b>(228)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>						
Proceed from issue of equity shares and 0.01% Compulsorily Convertible Preference Shares	-	-	350			
Changes in Borrowing	228	114	(38)	(197)	271	(4)
Interest paid	(189)	(241)	(260)	(249)	(277)	(300)
Dividend paid (including DDT)	(9)	(22)	(22)	(23)	(23)	(23)
Other financial activities	-	-	(160)	-	-	-
<b>NET CASH GENERATED / (USED) IN FINANCING ACTIVITIES (C)</b>	<b>30</b>	<b>(149)</b>	<b>(130)</b>	<b>(469)</b>	<b>(29)</b>	<b>(327)</b>
Net Change in Cash (A+B+C)	16	(21)	124	(113)	42	(36)
Cash & cash equivalents at the beginning of the year	35	45	20	133	20	62
<b>Cash &amp; cash equivalents at the end of the year</b>	<b>45</b>	<b>20</b>	<b>132</b>	<b>20</b>	<b>62</b>	<b>26</b>

Source: Company, LKP Research

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